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ABSTRACT

This booklet for trustees of institutions of higher education discusses principles for the relationship between institutional governing and foundation boards. An introductory section offers examples of poor outcomes resulting from a lack of collegial, productive relationships between these groups and stresses the importance of clarifying the relationship and of establishing and honoring institutional fund-raising priorities. Four foundation board responsibilities are listed: review funding priorities; identify, cultivate, and solicit donors; make personal contributions; and manage assets. Similarly, four governing board responsibilities are listed: set the institution's mission; ensure adequate resources; raise private funds; and recognize and steward gifts. Also addressed are ethical issues and procedural concerns. Guidelines for enhancing communications between the boards include appointing governing board members to the foundation board and sharing the foundation's annual report with the governing board. The booklet concludes with discussion of unique issues facing decentralized, centralized, or coordinated systems, and maintaining foundation autonomy. (DB)

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BOARD BASICS

FOUNDATION RELATIONS

GOVERNING AND FOUNDATION BOARD RELATIONSHIPS

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Governing and Foundation Board Relationships

In the pursuit of resources necessary to sustain and enhance the quality of public higher education, governing boards, college and university presidents, and institutionally related foundation boards are in the game together—or should be. When the process doesn't work smoothly or relationships become strained, the consequences can be serious. Consider these hypothetical but all too typical scenarios:

At Institution A, a new president decides the campus is fragmented, and the public is unaware of the university's value to the state. The president decides that a "unifying" major project is in order and proposes a $60 million campus center, open to all in the community. With the verbal backing of other administrators and informal encouragement of a few trustees, he informs the vice president for advancement that he will seek approval for the project at the next meeting of the foundation board. Despite being advised that the foundation is focused on funding academic priorities and that its leaders believe capital construction projects are the state's responsibility, the president perseveres. The foundation board votes down the project. The president holds his vice president, also executive director of the foundation, responsible.

At Institution B, one governing board member, motivated by his zeal for intercollegiate athletics, persuades the president that the institution should construct a new facility, ostensibly for multiple uses but principally for athletic events. His proposal assumes that increased student fees and admission revenues will amortize the costs. The governing board approves the proposal, but the project bids exceed estimates by $5 million.

The near-desperate president convinces the foundation to postpone agreed-upon funding priorities and focus on funding the facility. Despite some success, the funding does not keep pace with construction. Controversy surrounds the opening of the new facility.

At Institution C, the senior financial officer for the system, who adamantly opposed creating a foundation, works with the governing board's finance committee chair to "keep the foundation under control." The methods for doing so approach vindictiveness, including scheduling internal audits during the foundation's busiest month, attempting to issue internal audit reports that accuse the foundation of petty infractions, and recommending against increases in institutional contributions to fund-raising programs. Other trustees, including the board chair, seem unable to change this behavior.

At Institution D, foundation directors repeatedly express their disappointment in the performance of the institution's president. Finally, they express formal opposition to the president's continuing service and are openly critical of the governing board's inaction. The foundation board withholds further grant and gift transfers to the institution until the matter is rectified to its members' satisfaction. The president, under increased pressure, ultimately resigns.

None of these scenarios suggests collegial, productive relationships among the three parties charged with securing and administering funds for the institution. Most troubling is the friction between the governing and foundation boards. Clearly, the relationship between these boards is vital to successful fund-raising and asset management. The foundation, led by a committed group of volunteers, can make the difference between a truly exceptional enterprise and a mediocre one.

In today's environment for public higher education, raising private funds and growing institutional assets are essential. To meet that pressing need, foundations carry out the institution's or system's primary development and asset-management activities. In fact, the foundation board derives its authority and legitimacy from service to its host institution. At minimum, a healthy governing board-foundation board relationship is marked by mutual respect and a clear understanding of responsibilities. But the two entities must collaborate on a much more complex level if they are to meet the challenge of raising significant private support.

SUCCESSFUL FUND-RAISING REQUIRES AN APPROPRIATE BALANCE OF FOUNDATION AUTONOMY AND ACCOUNTABILITY TO THE INSTITUTION.

What are the elements of an ideal relationship? What are the governing board's responsibilities for fund-raising? How can institutional leaders address or resolve ambiguities that might cause problems? What communications practices will facilitate candor and yield greater success? What ethical issues need to be addressed through specific policy decisions? What are the unique challenges of multicampus systems and foundations? These questions and others are explored in this publication.

Clarifying the Relationship

Successful fund-raising requires an appropriate balance of foundation autonomy and accountability to the institution. An institution's governing board is responsible for establishing the policy framework within which a foundation must operate. In shaping these policies, the governing board should respect the commitment of the foundation board's volunteers and recognize the foundation's value to the institution.

Orientation programs for governing and foundation boards should review the fund-raising role of each entity. The institution president is responsible for promoting successful communications between the boards and creating a process to establish realistic funding priorities. Further, the president should bridge the interests of the governing board and the foundation.

Setting Fund-Raising Priorities

Establishing and honoring an institution's funding priorities is a collaborative process that includes both boards, the president, and select members of the campus community. The president should lead the process and provide a vision for the institution that results in a proposed list of funding priorities. Further, working together, the chairs of both boards, the foundation's chief staff officer, and the president should evaluate institutional priorities. This process should emphasize openness and candor and minimize turf battles.

Trustees might elect to leave an initial list of priorities intact, adjust the list to reflect the long-term goals of the institution more accurately, or determine—perhaps in consultation with the president—that certain programs or projects are supported more effectively with resources from tuition, fees, and auxiliary income or through federal grants or state appropriations. Regardless, in an ideal world, the president advances the refined priorities list to the foundation, where it undergoes a reality check in terms of current trends in philanthropy, cost versus potential, and the operating policies of the foundation.

Tensions over "ownership" of institutional priorities can be reduced or eliminated if the governing and foundation boards clearly understand their distinctive roles and demonstrate respect for each other's responsibilities. For example, the boards might carry out a feasibility assessment of emerging priorities without jeopardizing either the governing board's ultimate responsibility for setting institution priorities or the foundation board's need for autonomy.

Foundation Board Responsibilities

Several responsibilities of foundation boards and their individual directors are highlighted below.

1. Review funding priorities. A foundation board must recognize its important but limited role in this area. A foundation exists primarily to serve its host institution through fund-raising and asset management. Its role is limited in establishing the institution's funding priorities. Rather, it should focus on providing a realistic analysis of the practicalities of attracting support for the institution's specific priorities.

Before the governing board receives a preliminary list of funding priorities, the foundation's chief staff officer might help the president identify the priorities most appropriate for the foundation, based upon the likelihood of attracting private support. Common sense should prevail: Foundation volunteers are sure to be more enthusiastic about raising funds when the governing board shares its approved priorities early in the process. If the foundation directors reach consensus that a particular priority cannot attract adequate private support, they should inform the administration and suggest it be reconsidered, eliminated, or delayed until a more opportune time.

The process of evaluating funding priorities illustrates the value of having the foundation's chief staff officer also serve in an institutional role, most commonly as the institution's vice president for advancement. The senior foundation officer, working with the president, can facilitate communications with key players in the institution and the foundation. This dual portfolio also may encourage others (primarily faculty and other vice presidents) to become involved in setting priorities and in the fund-raising process. Foundation chief executives serve as institutional officers in nearly 65 percent of the foundations responding to a 1995 survey conducted by AGB and the Council for Advancement and Support of Education (CASE).

2. Identify, cultivate, and solicit donors. One of a foundation director's most significant responsibilities is to be his or her institution's advocate with current and prospective donors. Foundation board members must be engaged actively with donors by expanding the list of potential donors, cultivating prospects by involving them in institution activities, and requesting gifts that support the institution. The foundation board should include a development committee that oversees these and other activities related to donor outreach.

3. Make personal contributions. Volunteers lead by example. All members of a foundation board should be prepared to make personal annual contributions and provide more generous gifts during comprehensive campaigns. Careful recruitment and selection of foundation board members brings to an institution individuals with the capacity to make contributions and attract other individuals of means to do the same. Although only 38 percent of the foundations responding to the AGB/CASE survey receive gifts from 100 percent of their board members, 71 percent receive support from more than 60 percent of their members. Institution presidents and foundation directors should be clear about this expectation when individuals are recruited to serve.

4. Manage assets. Foundation boards are responsible for the financial management of all short-term and permanent assets held by the foundation, including funds for specific programs and departments, athletics, and the endowment. The board, through its investment committee, should seek the expertise of professional fund managers and perhaps members of the governing board or the institution's administration who have expertise in issues related to asset management and investment.

GOVERNING BOARDS ARE RESPONSIBLE FOR ESTABLISHING THE GROUND RULES FOR THE FOUNDATION'S RELATIONSHIP WITH THE INSTITUTION.

To carry out these basic responsibilities effectively, foundation boards should be organized in a way that emphasizes the role of committees. In addition, foundations should orient new directors and clarify their responsibilities and the foundation's priorities.

Governing Board Responsibilities

This principle should be clear: Ultimate responsibility for all institutional policy resides with the governing board. Governing boards are responsible for establishing the ground rules for the foundation's relationship with the institution. Within this purview, foundation bylaws or formal operating agreements between the foundation and the governing board or institution should provide clear guidelines on the mission and purpose of the foundation, its management and operation, inspection of its records, the liaison arrangement with the institution's administration, and conflict of interest. Obviously, when more than one foundation serves an institution or when the campuses in a system are all served by their own foundations, it becomes more challenging to clarify expectations, coordinate work, and ensure that foundations are carrying out approved missions within the framework of bylaws and formal operating agreements.

In every instance, the governing board has specific responsibility for carrying out its policy role, even if several responsibilities overlap with those of a foundation board. The president's ability to act as the interlocutor largely will determine how well each board—and ultimately the institution—fares. If effective communications are absent, several governing board responsibilities may have the potential to create problems between the boards.

1. Set an institution's mission. The governing board establishes a distinctive institution mission and endorses related priorities. While a mission statement should be flexible, it must define and describe a strategic blueprint for the institution. Such a blueprint is important not only for its internal constituencies, but also for the many external publics of a tax-supported institution, including state lawmakers and foundation directors. It should describe where the institution is headed and how it intends to get there.

Foundation boards composed of prominent individuals may want to influence institutional priorities. In large systems, foundation directors may believe that setting priorities is one of their rights or responsibilities. They must be careful, however, not to overstep their authority. Doing so can cause confusion, create conflict with the governing board, and result in difficulties for the president.

2. Ensure adequate resources. The governing board is responsible for seeing that an institution or system generates adequate public and private resources. As states continue to reorder support for public needs, more state-funded entities are competing for finite resources. Governing board members should support their institutions in several ways: by becoming advocates with state public-policy makers for the financial needs of their institution or system, by giving public testimony during appropriations processes, by using their personal contacts with state legislators, and by helping to inform legislative committees that oversee higher education budget appropriations. Key is to build awareness among state policy makers of the distinctions between public and private support for a state institution.

Foundation board members also might capitalize on their political connections. Governing boards and presidents would be wise to call on these individuals to supplement advocacy efforts at strategic points of the legislative process, especially for capital construction projects or the authorization or appropriation of state matching programs for endowed chairs. Before doing so, however, presidents should be certain the message from all advocates accurately reflects institutional priorities. A governing board committee on legislative matters may help oversee and coordinate legislative strategies and educate all volunteers and governing and foundation board members about the institution's legislative priorities.

3. *Raise private funds.* The governing board must ensure proposed funding priorities are consistent with the institution's mission and the realities of funding possibilities. The board oversees the requisite planning, while administrators guide and carry out the process, with input from various internal and external constituencies. Most important is that the plan advances several funding strategies aimed at supporting department projects, the institution's endowment, faculty chairs, and capital needs. The governing board's role intensifies when the institution pursues a comprehensive fund-raising campaign.

Governing boards must bridge the campus and the citizenry. They must help establish a favorable climate for private support and thus augment the foundation board's outreach to donors. The foundation board is key to private fund-raising, but the governing board must not abdicate its responsibility to be active simply because the foundation exists. Implicit in approving an institution's fund-raising priorities is a direct responsibility for the success of its fund-raising program. Further, governing board members must serve by example by making personal contributions and influencing others to give. If governing board members fail to demonstrate their commitment to the institution through personal giving and donor cultivating, why should anyone else? Similarly, system board members should not use the excuse of overseeing multiple institutions or campuses to justify supporting none.

Unfortunately, current data regarding giving among governing board members are unimpressive and tend to weaken an institution's case for support. Only 26 percent of public institutions report that more than 60 percent of trustees or regents give to their respective institutions.

The fund-raising responsibilities of public institution governing board members no longer stands in stark contrast to similar expectations for independent college and university trustees. In the public sector, however, these topics rarely are discussed in connection with trustee selection or orientation. However, declining state support compels governing board members to recognize that they must help provide and attract private resources for their institutions. The old argument that "I already give my time" no longer suffices. Time does not equal money when seeking support for public colleges and universities.

4. *Recognize and steward gifts.* Along with foundation directors, trustees should thank donors for significant gifts. Any such expressions should be coordinated with senior members of the foundation staff to ensure everyone respects certain donors who prefer "quiet" philanthropy or anonymity or who might be embarrassed by too much attention. For these reasons, governing boards should resist knowing the names of all major contributors.

In anticipation of donors who bask in recognition and acknowledgment, the governing board (in consultation with the foundation) should approve "naming opportunities," including setting the minimum contribution necessary for naming a room, wing, building, scholarships, professorships, and faculty chairs after a donor.

Ethical Issues and Procedural Concerns

Both boards should agree formally on what constitutes appropriate foundation activities, recognizing that a sound relationship requires a balance of foundation autonomy and governing board oversight. Governing board members must be aware that a few areas of foundation activity and practice have potential to damage the reputation of the institution.

For example, foundations that abruptly change their mission or direction without consultation, approval, and—perhaps most important—public disclosure can compromise the institution. Even worse, foundations that use assets for inappropriate or illegal activities will face an unforgiving media. Consequently, governing board members must carefully consider policy and procedural guidelines for institutions and campus foundations, especially in view of ethical and legal questions. Such guidelines and procedures should enable the governing board to review periodically the operation and activities of the foundations serving in its name. The following questions merit attention:

- Is the institution's long-term interest best served by having a foundation supplement the salary and benefits of the institution president, other senior officers, and athletic personnel? If so, how should this be handled?
- Should unrestricted foundation funds be used to enhance the office of the president, including transportation, spousal travel, furnishings for residence and office, and entertainment? If yes, how much is appropriate? How should such expenditures be reported?

- Should foundations help support an institution's athletics programs, even if these programs are not among an institution's fund-raising priorities?

- Should a gift from a donor with a questionable background be accepted by the foundation? When a donor offers the foundation a gift that falls outside agreed-upon funding priorities, the governing board ultimately must decide whether the institution should accept it. Historically, such gifts include real estate, animals, boats, cars, and gifts of appreciated property. Often, such gifts result in additional expenditures or ongoing obligations. As Arnold Weber, former president of the University of Colorado and Northwestern University advised, "Be leery of a gift that eats."

The governing board should not routinely limit the foundation's ability to accept gifts. The institution's president may bring unusual situations to the attention of the governing board for action, but policies adopted by the foundation and approved by the governing board may obviate the need for a gift-review committee. A foundation's planning, development, or gift-acceptance committee not only can protect the institution from unwanted or ill-advised gifts, but also can give the institution greater flexibility in accepting gifts. The test of acceptance should be premised on whether a gift will advance the institution's mission, reputation, and effectiveness, now or in the future.

Dealing with the public-relations fallout for questionable foundation activities can cause headaches. The best and simplest way to assess the propriety of a foundation's initiatives is the newspaper test: If a news report of a foundation initiative will have a detrimental effect on the foundation and the institution, don't do it.

Enhancing Communications

The institution's president, the chairs of both boards, and the senior foundation staff officer have a direct effect on the communications environment between the boards.

Open, candid communications strengthen a foundation's ability to protect its autonomy and prevent a governing board from exerting too much control or dictating foundation activities. Individuals of stature will not accept appointment to a foundation board if they sense the foundation is powerless or without important prerogatives. Open communication is more difficult—and sometimes nonexistent—when governing

boards are too politicized. Such situations heighten the importance of a mutually supportive relationship between the president and the foundation's chief executive. The following suggestions will facilitate effective communications between the foundation and governing boards:

OPEN COMMUNICATION IS MORE DIFFICULT—AND SOMETIMES NONEXISTENT—WHEN GOVERNING BOARDS ARE TOO POLITICIZED.

1. Appoint governing board members to the foundation board. Such appointments may be the most effective means of facilitating communications between the boards—but only when they are intended to strengthen the relationship between the boards, not reduce foundation autonomy. Governing board members whose terms have ended might be viable candidates for the foundation board. This strategy permits knowledgeable and experienced people to remain involved with the institution. Regardless of their status, however, governing board members should meet the qualifications required of all foundation directors: They should have personal influence and access; they should be willing to serve as advocates for private support by personal example; and they should be willing to identify, cultivate, and solicit donors.

Conversely, former foundation board members also can serve effectively on the governing board. The process of nominating governing board members should not overlook the intrinsic value of foundation board members, despite the political nature of nominations.

2. Establish a governing board development committee. Such a committee can help evaluate funding priorities and foster communications with the foundation board. The development committee should consist of three to five trustees who have expressed a commitment to the institution's fund-raising program, and it should be staffed by the institution's chief advancement officer (who also may serve as the chief executive officer of the foundation). The presence of this committee also can help to reinforce the fund-raising responsibilities of governing board members.

3. Share the foundation's annual report with the governing board. The information in this report will provide an overview of the foundation's activities, a comprehensive list of donors, and a summary of the foundation's finances. In addition to the publicly available report, the governing board might request a more detailed review of the foundation's fund-raising activities. If the foundation operates with an annual strategic business plan or a long-range plan, these also might be shared with the governing board as a gauge of foundation performance. When providing information to the governing board, the foundation might be guided by the following:

- Which of the institution's fund-raising priorities were well received by donors and prospects? Which were not?
- What new initiatives are prospects recommending?
- Do the institution's mission and objectives create or increase interest in the institution? Do they encourage prospects and donors to become engaged in the institution?
- Are current donors being persuaded to increase their levels of support?

4. Share the foundation's audit report and management letter with the governing board. Typically, the audit report includes a detailed analysis of the foundation's financial activities and a statement regarding the foundation's financial management (which clearly can affect donor relations and the institution's reputation).

While foundations may make their audits available to the public in the spirit of openness, foundation leaders may be concerned that their autonomy will be compromised if the report—once made available to the governing board—subsequently is deemed part of the public domain and open to public and media scrutiny. The statutes in some states force the disclosure of any records held by a public agency; other states require public bodies only to reveal the records public entities are legally required to keep. Most if not all states have open-records laws, but the information the laws cover varies greatly. Foundation leaders should be aware of the relevant state laws before determining how to proceed, and governing board members must be sensitive to circumstances that might imperil the foundation's legitimate need for privacy.

5. ***Establish a joint planning committee of trustees and foundation board leaders.*** Such a committee—composed of the president, foundation chief staff officer, both board chairs, and development committees chairs—can contribute to positive board relationships. It should hold two or three meetings each year to review the institution's priorities and gauge donors' interest in them. The committee also may help plan for annual meetings or retreats of both boards. Joint meetings should be scheduled more frequently during comprehensive campaigns.

Systemwide foundations also should convene representatives of all foundations that serve the system's institutions, especially the foundation board chairs. Joint meetings provide important opportunities to facilitate informal communications among board members. Social occasions, particularly those held on campus, provide a clear reminder that the institution is everyone's common bond.

An occasional retreat also offers both boards an opportunity to meet in a relaxed setting, yet still permit governing board members, foundation volunteers, and administrators to discuss the institution's fund-raising plans and priorities. Although sunshine laws may seem to discourage joint retreats with governing boards, experience suggests otherwise.

Unique Issues Facing Systems

In some systems, individual campuses may have one or more foundations; in others, all fund-raising activities may be organized in a single foundation. Regardless of the structure, the complex relationships and communications challenges among foundations require attention. While variations exist, system governing boards usually set policies for foundation relationships within three models:

- Decentralized: Each institution or campus is served by at least one foundation that raises funds independently with little or no system coordination or policy guidance.
- Centralized: A single foundation coordinates fund-raising for all institutions in the system.
- Coordinated: Campuses have independent foundations with at least some coordination, support services, and policy guidance from a central system foundation.

The decentralized model seems to be most prevalent. However, because individual campuses also may conduct broader advancement activities, the specific application of the models varies widely. The real challenge in system structures is to preserve a donor's loyalty to a particular institution. Alumni and other prospective donors give to institutions—not to systems. The systemwide goal should be to enhance the capacity of its campuses to attract private support. Imposing system governing board or systemwide foundation authority over campus-based foundations that have a long tradition of autonomy may be counter-productive.

Systemwide foundations are less able to sustain the enthusiasm of their volunteer boards and attract systemwide private support when the individual institutions of the system are independently and effectively raising private support. The value of maintaining a systemwide foundation should be weighed carefully in the context of its role and usefulness to the system and its institutions.

The geographic distances among campuses in large systems and states—and the infrequent direct contact a system governing board has with its campuses—may prompt a campus-based foundation board into assuming the role of an institution advisory board or a quasi-governing board. This scenario is risky in that a foundation board may overstep its authority and tread on the prerogatives of a system governing board. Foundation board members should avoid any temptation to act as if the foundation board is the de facto governing board. They also must avoid any appearance of compromising priorities or policies that are integral to the overall system plan.

Individual institutions in some systems are served by local campus advisory boards or quasi-governing boards that have been granted various levels of policy authority. In these settings, campus foundations may have a greater degree of autonomy, depending on the level of the campus board's authority. A campus quasi-governing board, through authority delegated by the state or the system governing board, can more easily maintain a stronger relationship with its foundation. For this model to succeed, campus foundation leaders and system administrators must demonstrate cooperation and flexibility. Sound personal relationships among the individuals who serve on these boards and their leaders are central to good donor relations.

A system board should reserve the right to initiate a systemwide campaign for the collective benefit of its constituent campuses. Such

campaigns can enhance the public's understanding of and appreciation for the system. However, system governing boards should not underestimate or abrogate the advantages of institution-centered campaigns. Once again, coordination and communications among institution and foundation leaders, the central office, and the system governing board are essential.

Foundation Autonomy

In recent years, lawsuits, media curiosity, and state public-policy debates have called foundation autonomy, accountability, and independence into question. As independent corporations, foundations must balance their public and private responsibilities, of course. Issues deriving from these responsibilities have the potential to become politically charged and difficult to resolve, and they certainly will be affected by the politics of financing public higher education.

Open and regular communication between governing and foundation boards can mean a favorable public-policy environment for an institution or system. This is another reason to maintain positive relations between boards, because the effect will be to minimize the likelihood that self-regulation will be threatened in the future.

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BOARD BASICS

This publication is part of **Board Basics**, an AGB series devoted to strengthening the effectiveness of governing boards and trustees. Board Basics comprises several topic clusters—The Fundamentals, Financial Matters, Fund-Raising, Academic Affairs, Leadership, Strategic Decision Making, Foundation Relations, and Effective Committees—each of which contains several booklets. Several assumptions underlie the series:

- Academic trusteeship grows increasingly ambiguous, and board members need concise, accessible, and focused information to help them carry out their complex fiduciary and stewardship responsibilities.
- Basic principles of trusteeship remain constant across higher education, regardless of institutional type, size, and mission. The series highlights these general principles to provide board members with a core of knowledge they can apply to their individual situations.
- The series addresses the distinguishing characteristics of academic trusteeship, especially as it differs in scope, substance, and focus from corporate directorships and other board service.

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